Crown Corporation
BUSINESS PLANS
FOR THE FISCAL YEAR 2012–2013

Nova Scotia Municipal Finance Corporation
Business Plan 2012–2013

Table of Contents

Message from the Minister and the Chair 241
Mission 243
Link to Municipal and Departmental Priorities 243
Planning Context 243
Strategic Goals 244
Core Business Areas 245
Priorities for 2012–2013 246
Human Resource Strategy 247
Budget Context 248
Outcomes and Performance Measures 251

Message from the Minister and the Chair

The Nova Scotia Municipal Finance Corporation (NSMFC) is a Crown corporation of the Province of Nova Scotia. The NSMFC was established by the Municipal Finance Corporation Act of the Legislature of the Province of Nova Scotia in 1979 and began business in January 1980. The Minister of Service Nova Scotia and Municipal Relations is responsible for the Nova Scotia Municipal Finance Corporation and the Deputy Minister serves as Chair of the Board of Directors.

The corporation's purpose is to provide the lowest available cost financing to its clients, which include municipalities, municipal enterprises, school boards, and health authorities. All municipalities and municipal enterprises must finance their external capital requirements through the corporation. Currently, most school board and hospital capital expenditures are financed directly by the province.

The NSMFC is forecasting to have over $732 million in debentures outstanding at March 31, 2012. New debenture issues in 2012–2013 are estimated to be in the range of $167 million, which will be balanced against debenture retirements of approximately $99 million.

The corporation is governed by a board of directors appointed by the Governor in Council. Legislation requires that 40 per cent of the board be appointed on the recommendation of the Union of Nova Scotia Municipalities. An additional member of the board is appointed on the recommendation of the Association of Municipal Administrators of Nova Scotia. These appointments provide municipalities with important representation on the NSMFC board. Four full-time staff members of the corporation are supported through staff and resources from the provincial Departments of Finance, Justice, and Service Nova Scotia and Municipal Relations.

The Honourable John MacDonell
Minister

Kevin Malloy, CA
Chair

Mission

To provide capital infrastructure financing to clients at the lowest available cost, within acceptable risk parameters, and to provide financial management advice and assistance to clients.

Link to Municipal and Departmental Priorities

The NSMFC contributes to the Service Nova Scotia and Municipal Relations departmental priorities in building infrastructure objectives that contribute to the creation of economic opportunities and building safe and sustainable communities. NSMFC loans are used to finance sewage treatment plants, solid waste facilities, and water services that promote clean and healthy communities. Loans are also made to finance streets, buildings, recreation services, and the purchase and development of land. All these components contribute to safer and healthier communities in Nova Scotia. By working with municipalities to develop recommended financial management practices and adopt North American standards in budget presentation and financial reporting, the NSMFC contributes to the development of fiscal stability in Nova Scotia municipalities.

Planning Context

The NSMFC faces a number of challenges and opportunities in meeting its strategic goals in the upcoming year.

- ***Ensure access to capital markets and the financial and administrative ability to meet municipal government demand for capital infrastructure funding.***

Challenge:

- Capital markets have been unsettled during the past year and are expected to continue during the current year, which may pose challenges for municipal debt issuers.
- Municipal issuers may very well experience deteriorating financial conditions over the upcoming year.

Opportunity:

- The NSMFC continues to be able to borrow under the Province of Nova Scotia's provincial guarantee, which provides greater borrowing predictability and stability.

- ***Maintain current knowledge of developments in municipal government capital finance.***

Challenge:

- As a small organization it is challenging to develop, maintain, and demonstrate expertise in municipal government.

Opportunity:

- With the return of the Manager of Client Services, the NSMFC has greater capacity to focus on developing its programs and services.

- ***Maintain financial self sufficiency.***

Challenge:

- The NSMFC must remain economically viable in both the short and long terms. This includes matching assets and liabilities to both amount and maturity; maintaining banking arrangements and credit facilities, credit risk, and adequate reserves; and having the ability to manage administration expenses within its budget.

Opportunity:

- The NSMFC remains stable, as it has for over 30 years. No client of the NSMFC has ever defaulted on a loan, which enables the NSMFC to remain stable and continue providing loans to its clients.

- ***Identify client needs and respond to them.***

Challenge:

- Municipalities in Nova Scotia have challenges in planning and financing their long-term capital infrastructure needs.

Opportunity:

- Opportunities exist to assist municipal governments in Nova Scotia with long-term capital planning and financing options.
- Opportunities also exist to work with local governments to achieve North American standards in municipal financial management capacity through the adoption of recommended practices.

The major risks to the corporation are reduced capital market receptiveness to smaller serial debt issues and the availability of human and financial resources needed to carry out its mandate. Some resources are directly under the control of the board, whereas others are provided by provincial departments. The NSMFC will continue to work with these provincial departments to align both sets of priorities.

Strategic Goals

The NSMFC's strategic goals are designed to assist municipal and departmental priorities in the area of infrastructure objectives, which contribute to creating economic opportunities and building safe and vibrant communities. Capital infrastructure is a major component of economic development in both attracting and retaining business investment and promoting communities that are appealing places to live.

The following strategic goals have been developed to assist the NSMFC in meeting its mission of providing the lowest available cost of financing for municipal capital infrastructure and long-term financial

planning, as well as support for infrastructure, economic, and community priorities.

- To provide capital infrastructure financing to our clients at the lowest available cost, within acceptable risk parameters, and to meet their particular debt structure and timing needs.
- To ensure access to capital markets through sound management of all financial aspects of the corporation, including credit risk and asset/liability management.
- To help build financial management knowledge in municipalities and promote municipal capital project planning and financing.

Core Business Areas

1. Providing flexible financing options at the lowest available cost

- Provide financing for clients' approved funding requirements by using pooled debenture issues and short-term loans.
- Facilitate and participate in loans to municipalities from financing sources such as the Federation of Canadian Municipalities Green Municipal Fund, where funding is available for projects meeting established criteria at below-market rates.

2. Ensuring access to capital markets

- Ensure that appropriate processes are in place for evaluating the creditworthiness of the loans made by the corporation.
- Ensure that the corporation's assets and liabilities are closely matched in both amount and maturity.
- Administer the corporation's financial resources prudently to ensure that the corporation's administrative expenses and reserve balances are within approved policies.

3. Helping build financial management and knowledge

- Partner with municipal clients, Service Nova Scotia and Municipal Relations, and the Association of Municipal Administrators of Nova Scotia on the topic of capital planning and finance.
- Develop programs and services geared toward developing and enhancing our clients' knowledge of capital planning and financing.
- Maintain links with the investment community, public sector finance practitioners, and academics, and carry out research as required to enable the corporation to respond to changing client needs.

Priorities for 2012–2013

The following details the actions, products, and services that the NSMFC intends to carry out in order to fulfill the corporation's mission and to meet its strategic goals.

1. Providing capital financing at the lowest available cost

- NSMFC will provide low-cost financing by issuing pooled debentures for the approved amount required to meet municipal borrowing requirements and lending a similar amount to our clients. In 2012-2013, the new debenture issuances are expected to be in the $167 million range, which is balanced against retirements of existing debentures of approximately $99 million.
- Pooling of capital requirements allows the NSMFC to access capital markets and achieve pricing based on the Province of Nova Scotia credit spreads.
- The corporation will offer short-term financing for municipalities to fund cash flow requirements between the completion of capital projects and the issuance of debentures.
- NSMFC will facilitate and participate in loans to municipalities from the Federation of Canadian Municipalities Green Municipal Fund where funding is available at below market rates for projects meeting established criteria.

2. Ensuring access to capital markets

- Obtain verification of creditworthiness from Service Nova Scotia and Municipal Relations (for municipal borrowers) before settling the parameters for pooled issues.
- Match the amount, term, and timing of NSMFC debentures and loans to municipalities.
- Manage the NSMFC's financial resources (budget and reserves) as per policies established by the corporation's board of directors.

3. Helping build financial management and knowledge

- Sponsor training workshops aimed at enhancing the overall knowledge of municipal finance and budgeting for municipal staff and councillors.
- Offer training designed to promote effective and efficient financial management.
- Promote the municipal use of the Debt Affordability Model, and provide technical support for municipal administrators. The Debt Affordability Model is a tool to help municipalities determine how much debt is too much debt to carry. The model can also be used by municipalities for multi-year budgeting and forecasting, and for analyzing revenue and expenditure options.

- Conduct research and analysis of what municipalities require to increase clients' infrastructure borrowing capacity; develop and tailor our programs and services accordingly.
- Work with the corporation's lead managers and other members of the investment community, staff of the Nova Scotia Department of Finance, other municipal finance corporations, and others involved in municipal capital financing to identify evolving municipal government financial needs and the optimum means of satisfying them.

Human Resource Strategy

Organizations with small staff are challenged when developing human resource strategies, particularly in the area of succession planning, as the skills requirements for the corporation's positions are diverse. The board's strategy has been to develop and retain existing staff and build capacity by involving other civil servants in the operation of the NSMFC through corporate officer positions and secondment opportunities. Development and training opportunities are made available to existing staff to enable them to stay abreast of developments in the industry. The corporation's human resource strategy is aligned with the government resource strategy.

Budget Context

Nova Scotia Municipal Finance Corporation
Estimated Administrative Budget Expenditures

	Budget 2011–12 ($ 000)	Forecast 2011–12 ($ 000)	Budget 2012–13 ($ 000)
Total program expenses – (gross current)	521.0	488.2	555.4
Net program expenses – (net of recoveries)*	0.0	0.0	0.0
Salaries and benefits	352.0	299.5	371.7
Funded staff (gross FTEs)	4	4	4

* Note: The NSMFC is completely self funded. The costs of administration are covered through an administrative fee that is levied on all municipal loans and from interest revenue earned on short-term investments.

Nova Scotia Municipal Finance Corporation Balance Sheet as at March 31, 2011 (audited)

Assets

Current assets	($)
Cash and cash equivalents	6,440,526
Accrued interest receivable	10,746,624
Other receivables	486
Principal due within one year on loans to units	96,508,559
Long term assets	
Loans to units beyond one year	660,034,872
Total Assets	773,731,067

Liabilities and Equity

Current liabilities	
Accounts payable	50,449
Accrued interest payable	10,734,037
Principal due within one year on debenture debt	96,508,410
Employee obligations	53,917
Long term debt	
Debentures payable beyond one year	660,002,517
Equity	
Reserve fund	6,381,737
Total liabilities and equity	773,731,067

Statement of Revenue, Expenses, and Reserve Fund
Year ended March 31, 2011 (audited)

Revenue	($)
Interest on loans to units	34,459,640
Interest on short-term investments	72,497
Debenture expense recoveries and reserve fees	841,884
Sales of services	0
Total revenue	**35,374,021**
Expenses	
Interest on debenture debt and short-term loans	34,457,915
Debenture issue expense	366,257
Administrative expense	465,408
Total expenses	**35,289,580**
Net revenue	**84,441**
Reserve fund, beginning of year	6,297,296
Reserve fund, end of year	6,381,737

Outcomes and Performance Measures

Core Business Area 1 *Providing Capital Financing at the Lowest Available Cost*

Outcome	Measure	Data *(2011 survey results)*	Target 2012–13	Target 2013–14	Strategies to Achieve Target
Provision of lowest available cost of financing to clients in a timely manner	Percentage of clients that are satisfied with the timing and processing of debenture issues	70%	80%	80%	Monitor alignment of debenture issues with the construction completion schedule and capital budgeting process Improve application process by working with clients to ensure quick processing of debenture documents
	Percentage of clients that agree the debenture terms and structure are flexible enough to meet their needs	85%	95%	95%	Promote short-term financing program Work with clients on financing options (payments and terms) Communicate financing options more effectively (e.g., through the website and consultations) Communicate NSMFC rates and products more effectively with clients (e.g., through the AMA list server and consultations)
	Quality of credit loans	Procedures ensure creditworthiness of loans	Regular review of loan procedures	Regular review of loan procedures	Maintain quality of portfolio
	Pricing received from lead managers in relationship to the Province of Nova Scotia's cost of funds	Provincial guarantee allows the NSMFC to price off the Province of Nova Scotia spread	Maintain access to the provincial guarantee	Maintain access to the provincial guarantee	Promote profile of NSMFC credit quality to maintain a strong relationship with government to ensure its support of the provincial guarantee

Core Business Area 2 *Ensuring Access to Capital Markets*

Outcome	Measure	Data	Target 2012–13	Target 2013–14	Strategies to Achieve Target
Ensure that a sustainable source of funding is available from clients to ensure the operational viability of the corporation	Client default rate (*Default* is defined as failing to make a principle or interest payment within five days of the due date)	0%	0%	0%	Ensure that all loans are creditworthy Promote the Debt Affordability Model Play a more active role in the creditworthiness procedure (Temporary Borrowing Resolutions) Monitor loan payment process
	Matching assets and liabilities Matching of aggregate amounts, terms, and timing of debentures and loans	Assets are closely matched to term and timing	Maintain matching strategy	Maintain matching strategy	Match the term and timing of NSMFC debentures and loans to clients

Core Business Area 3 *Helping Build Financial Management Knowledge*

Outcome	Measure	Data	Target 2012–13	Target 2013–14	Strategies to Achieve Target
NSMFC client use of the Debt Affordability Model	Percentage of municipal clients that are using the Debt Affordability Model	25% (2011 survey results)	35%	35%	Work with clients to help them implement the Debt Affordability Model Tailor Debt Affordability Model to better suit the needs of clients
NSMFC client use of the Financial Management Best Practices	Percentage of municipal clients that are using the Financial Management Best Practices	13% (2011 survey results)	20%	30%	Work with clients to help them implement best practices of their choice
Increased overall municipal finance knowledge among municipalities	Attendance at NSMFC-sponsored Municipal Finance Workshops	75% (workshop attendees 2010–11)	90%	90%	Promote the workshops more effectively to municipal staff and Council members Maintain the no-fee structure to attend the workshop
Increased knowledge and uptake of NSMFC programs and services	Number of avenues used to promote programs and services effectively	AMA list server Mail Website	Update or add 2 avenues	Update or add 2 avenues	Update and revitalize website Develop web-based programs, such as webinars Produce more promotional materials on a regular basis (e.g., pamphlets, brochures) Obtain greater exposure to municipal councils to promote programs and services